


Current Audit Issues

Georgia Department of Audits and Accounts

G.A.I.N.S. Annual Meeting
May 7, 2010
Presented by: Suzanne L. Hatfield, CPA, CGFM
Kristina A. Turner, CPA, CISA

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OVERVIEW

- LEA Website for Financial Statement Preparation
- Notes to the Basic Financial Statements Template
- Audit Report Changes
- 2010 Data Submission
- Revenue Recognition – Property Taxes

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OVERVIEW



- **Revenue Recognition – SPLOST**
- **Temporary Liquidity Guarantee Program**
- **American Recovery and Reinvestment Act of 2009**
- **Federal Audit Clearinghouse**
- **General & Application Controls**

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OVERVIEW



- **GASB 51 *Accounting and Financial Reporting for Intangible Assets***
- **GASB 53 *Accounting and Financial Reporting for Derivative Instruments***
- **GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions***
- **GASB 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

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OVERVIEW



- ***GASB 56 Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards***
- ***GASB 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans***
- ***GASB 58 Accounting and Financial Reporting for Chapter 9 Bankruptcies***
- **Questions**

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LEA WEBSITE FOR FINANCIAL STATEMENT PREPARATION



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Client Website



GDOE's website includes financial statements in accordance with generally accepted accounting principles @

<https://portal.doe.k12.ga.us/Login.aspx?e=98>

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LEA LIST OF REQUESTED ITEMS



- **Beginning with the FY 2007 audits, DoAA had a list of items needed for the audit on our Department website.**
- **This list includes links to various worksheets needed for you to prepare the Notes to the Financial Statements.**

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www.audits.ga.gov



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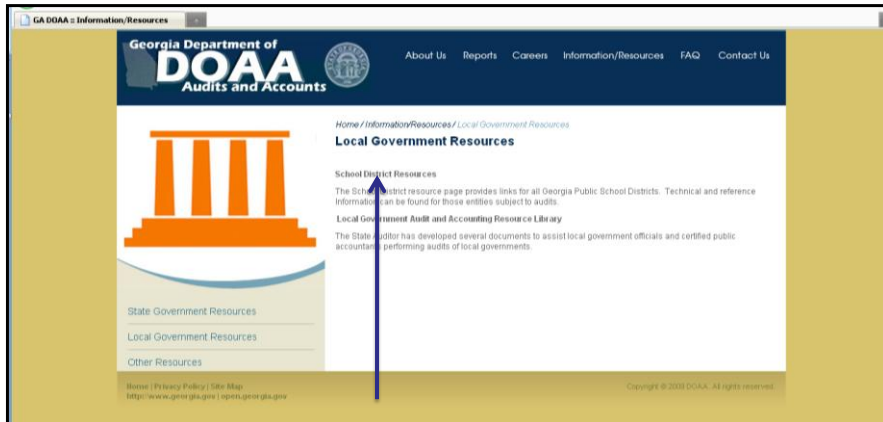
Local Government Resources



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Local Government Resources



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NOTES TO THE BASIC FINANCIAL STATEMENTS TEMPLATE



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Notes Template



- Uses Standard Notes Template prepared by DOE
- Interactive Form to allow users to enter information for the notes
- Creates a word document with embedded excel tables
- Users edit the word document and excel tables to finalize the notes; all changes are tracked
- Submit to DOAA as an electronic file.

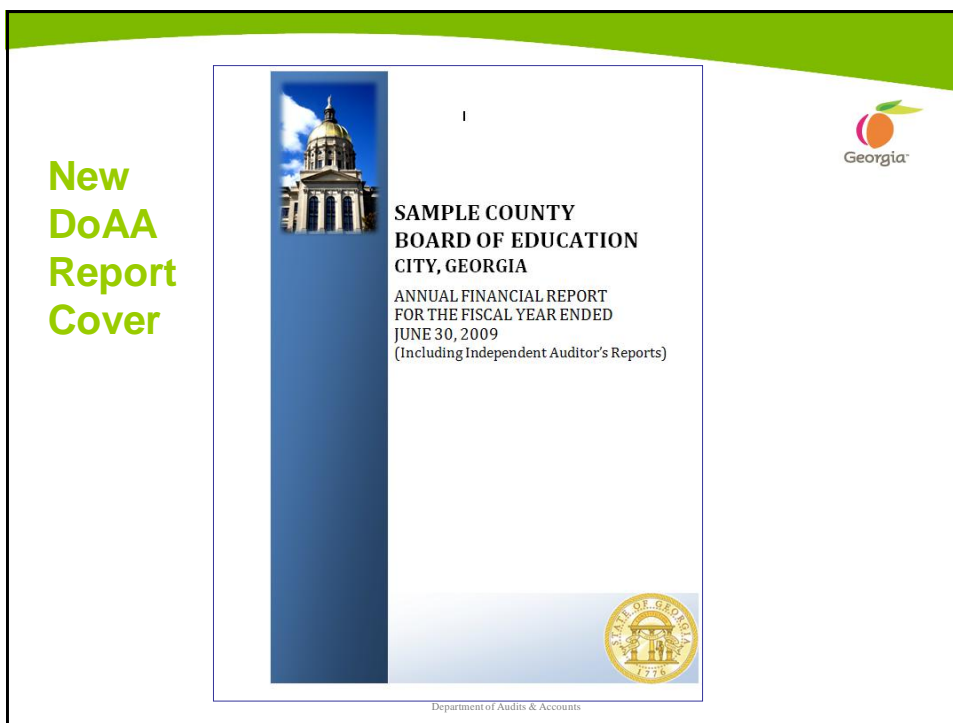
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AUDIT REPORT CHANGES

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NEW LOOK for 2010 REPORTS

- **Submit your own cover to auditors in Word or Adobe formats**
- **Cover must include the following components:**
 - Entity Name
 - Annual Financial Report for the Fiscal Year Ended June 30, 2010
 - (Including Independent Auditor's Report)

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NEW LOOK for 2010 REPORTS



- DoAA letters are revised to Franklin Gothic Book
- DoAA Exhibits/Schedules and NTFS templates are in Franklin Gothic Book
- Margins
 - ½ inch top and bottom
 - 1 inch left and right
 - Page numbers .3 inch from bottom of page
- Font Size
 - 12

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2010 DATA TRANSMISSION

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2009 Data Submission



- **In the past we collected two types of data**
 - Salary and Travel
 - Financial Data (from those LEAs DoAA audits)

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Open Georgia/Transparency in Government

SB 300



- **“Transparency in Government Act”**
 - Signed by Governor after the 2008 legislative session
 - Provided for the creation of and maintenance by DoAA of a website which provides access to certain state expenditure information
 - Amended O.C.G.A. §50-6-32

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Open Georgia/Transparency in Government

SB 300



- State of Georgia CAFR
- Budgetary Compliance Report
- State of Georgia Single Audit
- **Salaries and expenses of full-time and part-time employees and board members**
- List of consultant expenses and other professional services expenses
- State Budget in Brief, indexed by reporting agency
- All performance audits conducted by DoAA

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Open Georgia/Transparency in Government



SB 389

- Amends O.C.G.A. §50-6-32
 - Agency includes:
 - **Any regional educational service agency**
 - General Assembly, including all legislative offices and agencies
 - **Local boards of education**

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Open Georgia/Transparency in Government



SB 389

- Information to be provided by local boards of education and RESAs
 - Salaries and expenses of full-time and part-time employees and board members
 - List of consultant expenses and other professional services expenses
 - Indexed listing of all agencies and end users receiving any federal pass-through moneys and an itemized enumeration of the expenditure of such moneys

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Open Georgia/Transparency in Government



SB 389

- Report of certain grant and contract payments made or due to vendors... Such report shall include, at a minimum:
 - A list of all obligations entered into... during the immediately preceding fiscal year which call for the agency to expend at any time in the aggregate more than \$50,000

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Open Georgia/Transparency in Government



SB 389

- A list of the names of each person, firm, or corporation that has received from the agency during the immediately preceding fiscal year any payments in excess of \$20,000 in the aggregate, including the amount paid to such person, firm, or corporation during such period

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Open Georgia/Transparency in Government



SB 389

- “ An indexed listing of all agencies and end users receiving any federal pass-through moneys and an itemized enumeration of the expenditure of such moneys.”
- What does this mean?

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Changes to STP System



- **Salary and Travel System Revamped for 2010**
- **WorkFlow Changes**
 - 4 Step Process: Upload, Review & Confirm, Confirm Contact, Confirm Process Complete
 - Data Upload brings STP records into a Workspace to allow correction of errors
 - Errors will be tagged with a red flag
 - New Validation Rule – Must have First & Last Name
 - Records can be filtered for specific error types
 - Job Code Errors
 - Duplicates

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Changes to STP System



- **Other Changes**
 - SSN will be encrypted and only viewable using a passphrase
 - User will be prompted to enter the passphrase when entering the application
 - Confirmation of Contact Information for **open.georgia.gov** – This person will be recorded at the State Help Desk for your entity for any questions related to your STP information

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Salary & Travel Submission



- **Website available – July 9th**
- **Deadline – August 15th**
- **Management letter comments**
 - Auditors will not make changes
 - Nonmaterial noncompliance will be issued depending on the magnitude of the issues
 - All compensation should be included in transmission
 - All payments to board members (including travel)

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Salary & Travel Submission



- **NOTE:** *General ledger does not have to be closed to remit this data*

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Data Collection Process



- Working to create an easy process to submit all of the data needed for compliance with laws
- Due date is October 15th
- More information will be provided ASAP
- Meetings are taking place between DOAA and Cognizant Agencies to interpret law.

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PROPERTY TAXES



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Revenue Recognition at the Fund Level



➤ Current practice

During the year you record the following entry when you receive funds from the tax commissioner

Cash 101	xxx,xxx	
Ad valorem taxes 1110		xxx,xxx

At year end you record amounts received within 60 days

Taxes receivable 0121	xx,xxx	
Ad valorem taxes 1110		xx,xxx

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GASB Codification P70



When property tax is levied you should record:

Taxes receivable 0121	1,000,000	
Allowance for uncollectible taxes		2,000
Ad valorem taxes 1110		998,000

As property taxes are received from tax commissioner you should record:

Cash 0101	x,xxx	
Taxes receivable 0121		x,xxx

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GASB Codification P70



At year end, amounts not received are not available to pay for liabilities of the current period, you should record:

Ad valorem taxes 1110	1,000	
Deferred Revenue 0481		1,000

During the 60 day availability period immediately following the end of the fiscal year, you estimate that \$500 in property taxes will be collected and remitted to you, you should record:

Deferred Revenue 0481	500	
Ad valorem taxes 1110		500

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GASB Codification N50



On the district-wide statements revenues of the current year should be recognized in the statement of net assets regardless of whether they are available, you should record

Deferred revenue 0481	500	
Ad valorem taxes 1110		500

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SPLOST REVENUE RECOGNITION

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SPLOST REVENUE RECOGNITION

**In November, we learned that some tax distributions
are over 4 months behind**

- Because the materiality threshold is usually low for Capital Projects, we anticipate that FY 2009 collections received in subsequent periods through October could be material
- A worksheet was obtained from Dept of Revenue and indicates the percentage of revenue that is from one, two, three and more months past

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SPLOST REVENUE RECOGNITION



- **For each engagement, the auditors will determine the amount of taxes received through October to determine the amounts earned and/or deferred as of June 30th**
 - A worksheet has been created to assist in the calculations
 - In July, 100% of the distributions received are for June and previous months
 - In August, auditor will have to calculate the percentage of the distribution that is for two, three and remaining previous months

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SPLOST REVENUE RECOGNITION



- In September, auditor will have to calculate the percentage of the distribution that is for three months and remaining previous months
 - In October, auditor will have to calculate the percentage of the distribution that is for the remaining previous months
 - Add the amounts calculated for July through October and determine the entry that is required
- **You will more than likely posted a receivable for the July and August distributions to the general ledger at June 30th**

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SPLOST REVENUE RECOGNITION



- Auditor will have to determine what correcting entries are necessary, if any
- Auditors will discuss these entries with you and correcting entries made to the financial statements without penalty
- If the difference is immaterial, the entry is still recommended since you should be provided a reasonable opportunity to correct all known misstatements

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SPLOST REVENUE RECOGNITION



On the modified accrual method (fund financial statements), the full asset is recognized when earned and the revenue is recognized when earned and available.

The entry to accrue SPLOST revenue received in July through October is as follows:

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SPLOST REVENUE RECOGNITION



Modified Full Accrual Basis

Debit Accounts Receivable

(for full amount of FY 2009 revenue received July-Oct)

Credit SPLOST Revenue

(for revenue received within 60 days of June 30th)

Credit Deferred Revenue

(for revenue received after 60 days)

Increase Fund Balance – Reserved for Capital Projects

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SPLOST REVENUE RECOGNITION



On the full accrual method (district wide statements), the asset is recognized in full when earned, as well as the revenue. No deferral of revenue is required using the full accrual method

The entries to post the revenue received in July through October of subsequent period on the District Wide statements are as follows:

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SPLOST REVENUE RECOGNITION



Full Accrual Basis

Debit Accounts Receivable

(for full amount of FY 2009 revenue received July-Oct)

Credit SPLOST Revenue

(for full amount of FY 2009 revenue received July - Oct)

Increase Net Assets Restricted for Capital Projects

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TEMPORARY LIQUIDITY GUARANTEE PROGRAM



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TEMPORARY LIQUIDITY GUARANTEE PROGRAM



On November 21, 2008, the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) adopted a Final Rule relating to the Temporary Liquidity Guarantee Program

The Temporary Liquidity Guarantee Program is designed to avoid or mitigate adverse effects on economic conditions or financial stability

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TEMPORARY LIQUIDITY GUARANTEE PROGRAM



Two Components of the TLG Program:

- 1. Debt Guarantee Program – the FDIC will guarantee the payment of certain newly-issued senior unsecured debt**
- 2. Transaction Account Guarantee Program – the FDIC will guarantee certain noninterest-bearing transaction accounts**

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TEMPORARY LIQUIDITY GUARANTEE PROGRAM



DEBT GUARANTEE PROGRAM

- The Debt Guarantee Program is for all unsecured debt issued before October 31, 2009, and matures on or before December 31, 2012
- The unpaid principal and contract interest of the senior unsecured debt would be paid by FDIC if the issuing insured depositor institution failed or if a bankruptcy petition were filed
- School Districts should not be affected by this part of the TLGP

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TEMPORARY LIQUIDITY GUARANTEE PROGRAM



Transaction Account Guarantee Program

- The Transaction Account Guarantee Program provides for temporary full guarantee by the FDIC for funds held at FDIC-insured depository institutions in noninterest-bearing transaction accounts above the existing deposit insurance limit
- Noninterest-bearing accounts are defined as low-interest NOW accounts (with interest rates no higher than 0.50 percent)
 - Effective October 14, 2008, and has been extended until June 30, 2010

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TEMPORARY LIQUIDITY GUARANTEE PROGRAM



Transaction Account Guarantee Program

- **Financial Institutions can opt-out of participating in the Transaction Account Guarantee Program. Institutions that opt-out can be found on the FDIC website**
- **Additionally, Congress has extended the FDIC insurance for all depository accounts from \$100,000 to \$250,000**
- This temporary increase in FDIC coverage is in effect until December 31, 2013.

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AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009



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ARRA Programs



Based on data we have received, the following are the possible ARRA Programs for FY 2010

- State Fiscal Stabilization Fund Cluster
- Title I, Part A Cluster
- Special Education Cluster
- Impact Aid Cluster
- Head Start Cluster
- Child Nutrition Discretionary Grants Limited Availability

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Additional ARRA Requirements



Compliance Supplement Addendum #1 has additional procedures for ARRA

- Activities Allowed or Unallowed
- Davis-Bacon Act
- Procurement, Suspension and Debarment
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

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Additional ARRA Requirements



- **Activities Allowed or Unallowed**
 - ARRA has established a cross-cutting unallowable activity for all ARRA-funded awards.
 - Pursuant to Section 1604 of ARRA, none of the funds appropriated or otherwise made available in ARRA may be used by any State or local government, or any private entity, for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.

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Additional ARRA Requirements



- **Subrecipient Monitoring**
 - separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds
 - require your subrecipients to provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC)

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Additional ARRA Requirements



- Special Tests and Provisions
 - **Separate Accountability for ARRA Funding**
 - maintain records that identify adequately the source and application of ARRA awards

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Additional ARRA Requirements



- Special Tests and Provisions
 - **Presentation on SEFA and SF-SAC**
 - Provide identification of ARRA awards on your SEFA and SF-SAC

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A-133 Single Audit Reporting Package

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DCF Certification

- In FY 2008, the process for submitting the A-133 Single Audit Reporting Package was modified
- Submit electronically, no longer submit hard copy of audit report to the Federal Audit Clearinghouse (FAC)
- Required to submit the report within 30 days of the audit report date

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DCF Certification



- Provide the Auditor-In-Charge with the name and email address of the Certifying Official
- The Certifying Official is the one that has the responsibility to submit the data to the FAC
- Include the Finance Director's name and email address as an additional contact at the Board if the Certifying Official is the Superintendent

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DCF Certification



- The transmittal letter from DoAA includes information about the certification and submission process
- Once the audit is issued, the following process will take place:
 1. DoAA will electronically load the Audit Report and Data Collection info to the FAC website.
 2. The Board's Certifying Official will receive an email from the FAC, indicating that the report has been loaded. The email address is govs.fac.ides@census.gov

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DCF Certification



3. The email will include the Report ID and a 12-digit signature code, plus detailed instructions to certify the information
4. DoAA will contact the Certifying Official with the password or you can contact Amy Rowell at 404-651-8803

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DCF Certification



5. Both the auditor and auditee (Certifying Official) must certify that the information is correct
6. After certification, the loaded data can then be submitted to the FAC
7. The FAC then reviews and accepts the information
8. All this should be completed within 30 days of the audit report date

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GASB 51

Accounting and Reporting for Intangible Assets

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GASB 51 – Reporting of Intangible Assets

- **For the purposes of the Statement, an intangible asset possesses ALL of the following characteristics:**
 - Lack of physical substance
 - Non-Financial Nature
 - Initial useful life extends beyond a single financial report period
- **Examples of Intangible Assets**
 - Easements
 - Water Rights
 - Timber Rights
 - Patents
 - Trademarks
 - Computer Software

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GASB 51 – Reporting of Intangible Assets



- **All intangible assets subject to Statement 51 should be classified as capital assets**
- **Land Use Rights – Are exempt from reporting under Statement 51 if they are/were acquired as a result of purchasing the land on which they exist**
- **Software – Two Categories**
 1. **Internally Generated:** software created by the government or by an entity for the government; or a commercial software that requires more than minimal incremental effort on the part of the government to begin to achieve its expected level of service capacity.
 2. **Commercial Off the Shelf (COTS)** – commercial software not requiring more than minimal incremental effort to begin to achieve an expected level of service.

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GASB 51 – Reporting of Intangible Assets



- **Software Development**
 - **Preliminary Stage** – Concept Formulation; evaluation of alternatives feasibility – Accounting Treatment Expense
 - **Application Development** – Application Design; configuration of interfaces, coding, installation to hardware; testing – Accounting Treatment Capitalize
 - **Post Implementation** – Application Training; software maintenance – Accounting Treatment – Expense
- **Software Modifications – May require capitalization if modification result in increased functionality; increased efficiency or extension of useful life**

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GASB 51 – Reporting of Intangible Assets



➤ Reporting Requirements

- Fiscal Year 2010
- Intangible assets acquired after June 30, 1980
- Retroactive reporting is required for intangible assets except internally generated (Restatement)
- Prospective for internally generated software

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GASB 51 – Reporting of Intangible Assets



➤ What the auditor's expect to see:

- Updated Capitalization Policy
- Analysis of identification and valuing of intangible assets with supporting documentation
- Determination of useful lives and capitalization
- Capital Assets Note Disclosure including Restatement
- Restatement Note Disclosure for the Implementation of GASB 51

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GASB 53

Accounting and Financial Reporting for Derivative Instruments

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GASB 53

➤ What do the auditors expect to see:

- Policies and procedures in place to report new and existing derivative activity
- Inventory of all types of derivatives, including those used in operations, pension and OPEB Investments
- Third Party Valuation of derivatives as of the date of the Statement of Net Assets
- Supporting documentation for additional note disclosures

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Summary



- **Effective Fiscal Year 2010**
- **Derivative instruments are reported at fair value**
- **Derivative instruments can expose governments to significant risks and liabilities**

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Summary



- **In this light, we do not anticipate that school districts will use these financial arrangements**
- **O.C.G.A. §20-2-411 and specifically, Opinion of the Attorney General No. 69-306 indicates that “local school officials... are not responsible if the investment results in a loss rather than a gain, so long as the investment, at the time the investment was made, was reasonably prudent and cautious under the circumstances...”**

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GASB 54

Fund Balance Reporting and Governmental Fund Type Definitions

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Summary

- **Effective Fiscal Year 2011**
- **Objective of Statement is to enhance the usefulness of fund balance information by**
 - Providing clearer fund balance classifications that can be more consistently applied
 - Clarifying the existing governmental fund type definitions

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Summary



- **Changes in this Statement will improve financial reporting by**
 - Providing fund balance categories and classification that will be more easily understood
 - Elimination of reserved component of fund balance in favor of a restricted classification will enhance consistency between the District-wide and governmental fund statements

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GASB 55



The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

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Summary



- **Effective Upon Issuance**
- **Objective of Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature**

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Summary



- **The requirements of this Statement will improve financial reporting by contributing to the GASBs efforts to codify all GAAP for state and local governments so that they derive from a single source**

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GASB 56

Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

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Summary

- **Effective Upon Its Issuance**
- **Objective of Statement is to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance presented in the AICPA Statements on Auditing Standards**

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Summary



- **Three issues not included in authoritative literature that establishes *accounting* principles**
 - Related party transactions
 - Going concern considerations
 - Subsequent events
- **The presentation of principles used in *preparation* of financial statements is more appropriately included in accounting and financial reporting standards instead of auditing standards**

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Summary



- **The requirements of this Statement will improve financial reporting by contributing to the GASBs efforts to codify all sources of GAAP for state and local governments so that they derive from a single source**

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Related party transactions



- If the substance of a particular transaction is significantly different from its form because of the involvement of related parties, financial statements should recognize the substance of the transaction rather than merely its legal form

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Related party transactions



- Examples of transactions that may indicate whether a *form-over-substance* condition exists include:
 - Borrowing/lending on an interest-free basis or at a rate of interest significantly above/below market rates prevailing at the time of the transaction
 - Selling real estate at a price that differs significantly from its appraised value
 - Exchanging property for similar property in a nonmonetary transaction

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Related party transactions



- **Governments frequently enter into transactions and engage in activities that are driven by societal needs and concern for the “public good”.**
- **It may not be appropriate to compare some governmental programs and arrangements to what might have occurred in an arm’s-length transaction in the private sector or with unrelated parties**

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Subsequent events



- **Events/transactions that affect the financial statements sometimes occur subsequent to the financial statements’ date but before the financial statements are issued**

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Nonrecognized events



- **Nonrecognized events may require disclosure in the notes to the financial statements**
 - Those events that provide evidence with respect to conditions that did not exist as of the date of the financial statements
 - Some of these events may be of such a nature that their disclosure is essential to a user's understanding of the financial statements

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Nonrecognized events



- Examples
 - Loss resulting from a major casualty, i.e., fire, flood, tornado subsequent to the financial statements' date
 - Changes in the quoted market prices of securities typically reflect a concurrent evaluation of new conditions
 - Issuance of bonds
 - Creation of new component unit

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Recognized events



- **Recognized events** require adjustment to the financial statements
- **Consist of those events that provide additional evidence with respect to conditions that existed as of the date of the financial statements**
- **Affect the estimates inherent in the process of preparing financial statements**

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Recognized events



- **All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based**
- **Financial statements should be adjusted for any changes in estimates resulting from use of such evidence**
- **Examples**
 - **Settlement of litigations for an amount different from the liability recorded if the event, such as an injury, took place prior to the financial statements' date**

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Going concern considerations



- **Continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary.**
- **Significant information and indicators to the contrary may include,**
 - entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business
 - Restructuring of debt (other than refundings)

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Going concern considerations



- Default on bonds, loans or similar agreements
- Proximity to debt and tax limitations
- Noncompliance with statutory capital or reserve requirements
- Legislation
- Matters that might jeopardize intergovernmental revenues and fiscal sustainability of key governmental programs

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Going concern considerations



- Preparers of financial statements have a responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern for 12 months beyond the financial statement date

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Notes disclosures



- Pertinent conditions/events giving rise to the assessment of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time
- Possible effects of such conditions/events
- Government officials' evaluation of the significance of those conditions/events and any mitigating factors

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Notes disclosures



- Possible discontinuance of operations
- Government officials' plans including relevant prospective financial information
- Information about the recoverability or classification of recorded asset amounts or the amounts/classification of liabilities

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GASB 57



***OPEB Measurements by
Agent Employers and Agent
Multiple-Employer Plans***

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Summary



➤ Objective

- Address issues related to the use of the alternative measurement method
- Addresses the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans

➤ Amends

- GASB Statement 45
- **For the majority of you this will only be applicable for the State of Georgia CAFR**

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GASB 58



Accounting and Financial Reporting for Chapter 9 Bankruptcies

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Summary



➤ Objective

- Provide accounting/financial reporting guidance for governments that have petitioned for protection from creditors by filing bankruptcy under Chapter 9 of the U. S. Bankruptcy Code
- Requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms, i.e., approves, a new payment plan
- **Let's hope that this statement affects no one here**

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QUESTIONS?



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